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David L. Meier
Director
Legislative & Regulatory Planning

April 15, 1997

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street NW, Room 222
Washington, DC 20554

APR 15 1997

RE: Oral Ex Parte Presentation
CC Docket No. 96-150, Implementation of the
Telecommunications Act of 1996, Accounting
Safeguards Under the Telecommunications Act of 1996

Dear Mr. Caton:

Earlier today Robert Coogan, Vice President Accounting, Gene Baldrate, Vice President Regulatory Affairs and the undersigned from Cincinnati Bell Telephone met with, Clifford Rand, Jose Rodriguez, Ken Ackerman, Andy Multz, Valerie Yates, Kim Yee, Thaddeus Machcinski, John Hays, Ron Kaufman and Alicia Dunnigan of the Accounting and Audits Division of the Common Carrier Bureau to discuss issues surrounding the CBT's Petition For Reconsideration in CC Docket 96-150. The attached material was used to facilitate discussion at the meeting.

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The original and one copy of this Notice are being submitted in accordance with Section 1.1206(a)(2) of the Commission's Rules. Please date stamp this copy as acknowledgment of its receipt. Questions regarding this Notice may be directed to me at 513-397-1393.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "David J. Mee".

Attachment

cc: Clifford Rand
Jose Rodriguez
Ken Ackerman
Andy Mulitz
Valerie Yates
Kim Yee
Thaddeus Machcinski
Alicia Dunnigan
John Hays
Ron Kaufman

AFFILIATE ORGANIZATIONAL CHART

SECTION IV

1.0 CBI ORGANIZATIONAL STRUCTURE

Figure IV-1 shows the organizational structure of CBT's affiliated companies. See Section V for affiliated transactions.

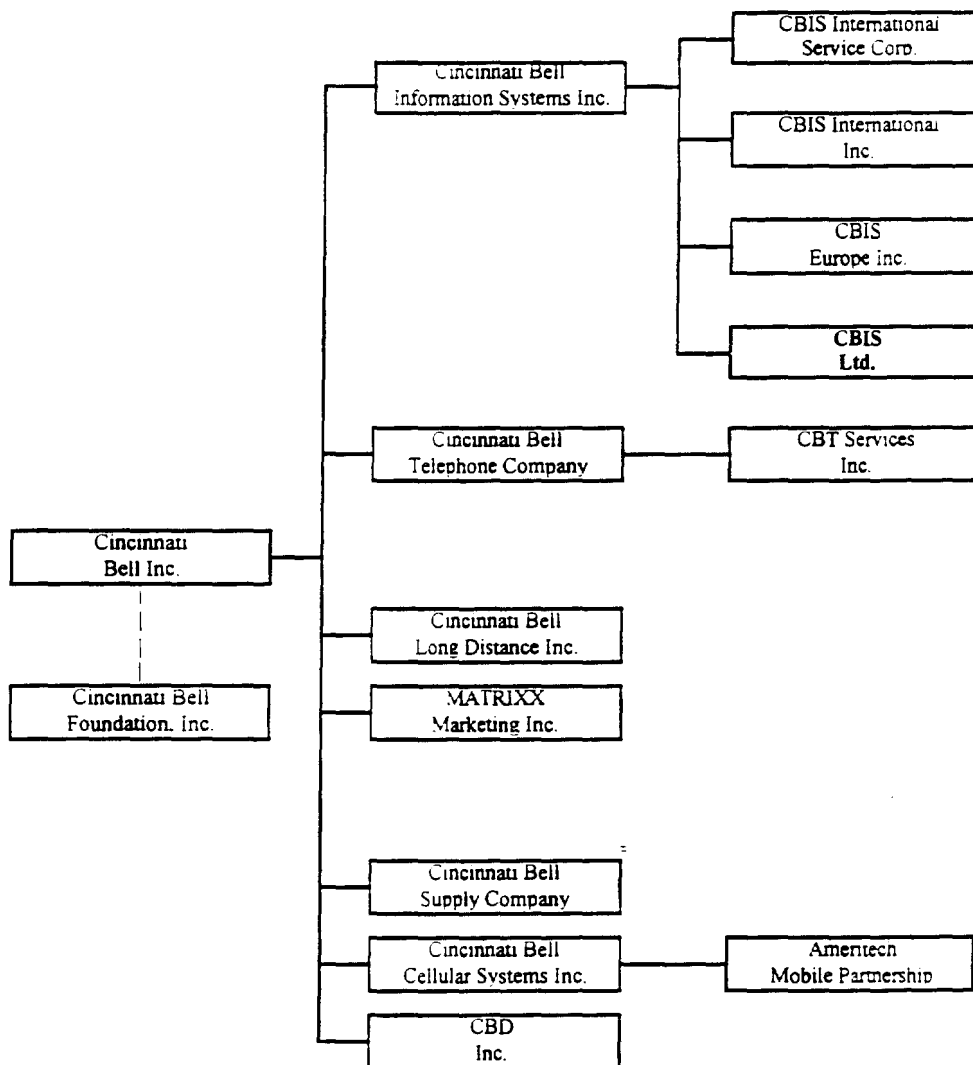


Figure IV-1 Cincinnati Bell Inc. Affiliate Organization

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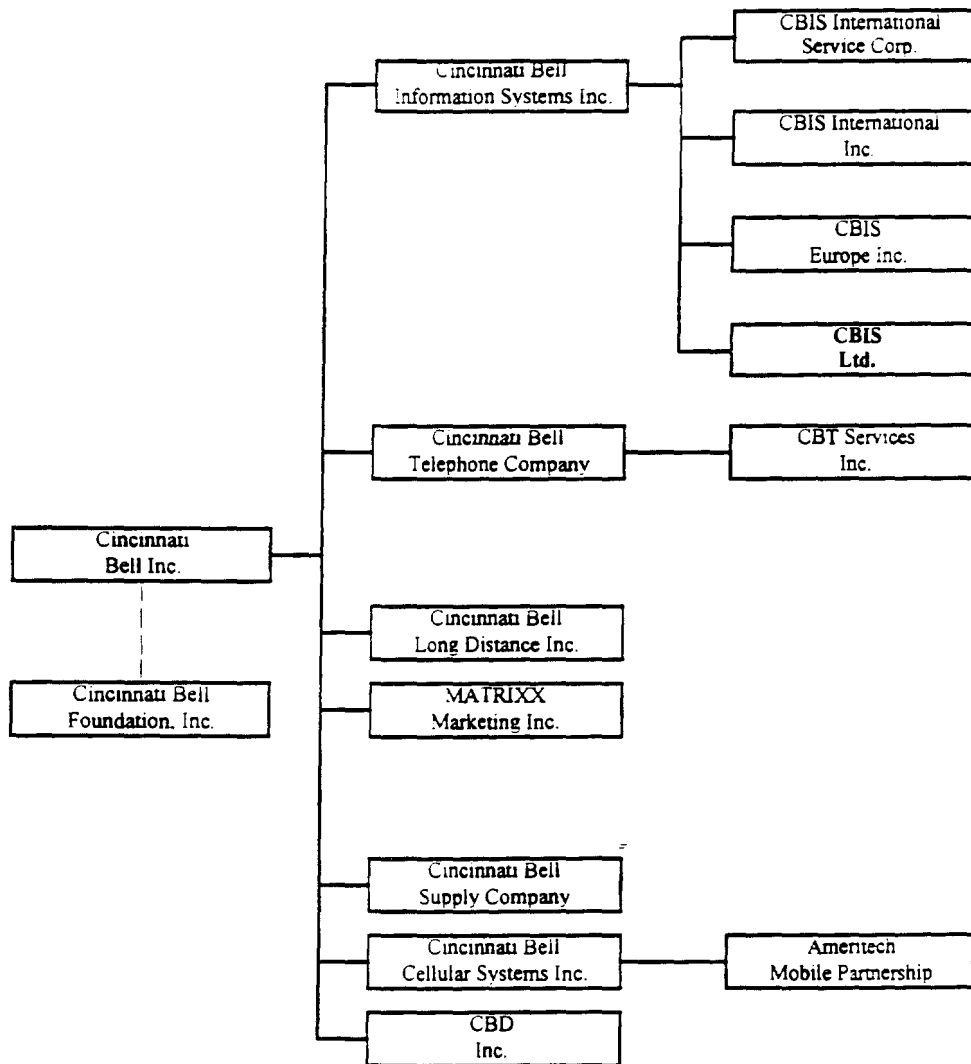


Figure IV-1 Cincinnati Bell Inc. Affiliate Organization

**ACCOUNTING SAFEGUARDS
DOCKET 96-150**

**CINCINNATI BELL TELEPHONE
Discussion with**

FCC ACCOUNTING AND AUDITS DIVISION

April 15, 1997

AGENDA

- **Background**
- **Purpose**
- **Review of PFR Issues**
- **Cincinnati Bell Examples**
- **Conclusion**

MARKET VALUATION

- **Non-value-added cost of compliance**
 - ⇒ **market study**
 - ⇒ **establishing affiliate**
- **Non-value-added use of scarce internal resources**
 - ⇒ **especially in smaller telcos**
- **Increased regulatory burden (not previously required)**
 - ⇒ **contrary to goal of Telecom Act**
- **FMV determination is not straightforward, especially for Support Services**
- **Competition provides an additional safeguard against cross-subsidization**

SEPARATE SERVICES SUBSIDIARY

- **CBT agrees with exemption in paragraph 148**
- **Same benefits accrue whether services are provided from structurally separate subsidiary, the parent company or the regulated company**
 - ⇒ **realize same economies of scale and scope**
 - ⇒ **benefits ultimately accrue to ratepayers**
 - ⇒ **benefit of cost avoidance for valuation study**
- **Establishing a separate services subsidiary itself involves non-value-added cost**
 - ⇒ **is a significant reason why some telcos chose not to establish these service subsidiaries**
 - ⇒ **there are no additional cost savings merely by establishing the subsidiary**

DISADVANTAGES SMALL TO MID-SIZE TELCOs

- **Exception is made based solely on corporate structure vs. actual results of transactions**
- **“Forced” to incur additional costs, either to
 - ⇒ **form a subsidiary company (including incremental overheads)**
 - ⇒ **perform market valuations****
- **Prices higher than FDC will discourage purchases by affiliates, removing a possible advantage to ratepayers of reduced regulated costs**
- **Telcos without the services subsidiaries are generally the small players**

CINCINNATI BELL EXAMPLES

- **Benefits and Payroll processing by CBT for an affiliate**
 - ⇒ **CBT is being considered as the provider of benefits and payroll processing for an affiliate, and currently provides these services to CBI (parent company)**
 - ⇒ **All else being equal, if affiliate must pay FMV rates that are higher than FDC, competitors who operate at FDC gain an unfair advantage**
 - ⇒ **Ratepayers benefit from allocation of fixed costs**

CINCINNATI BELL EXAMPLES

- **Non-structurally separate operation**

⇒ Since 1988 CBT has had non-regulated activities involving common use of assets and resources and used Part 64 processing to separate non-reg

⇒ In 1996 CBT established a legal entity for tax minimization and management reporting purposes

- * No change to operations

- * No change to Part 32/64 accounting

- * No structural separation

- * Books mirror Part 64 for tax return purposes

⇒ “Worst case” reading of 96-150 is that FMV analysis is required for all internal CBT activities

CINCINNATI BELL EXAMPLES

- **Major vendor contracts for corporate family**
 - ⇒ **Negotiated by CBT or CBI, absent a “Services Subsidiary”**
 - ⇒ **Discounts based on total corporate volumes are not achievable by CBT alone**
 - ⇒ **Ratepayers benefit from lower costs**
- **A/P - Corporate “center of excellence”**
 - ⇒ **CBT may process invoices for all companies**
 - ⇒ **Market valuation is not straightforward**
 - * **error rates**
 - * **duplicate payments**
 - * **tracking reports**
 - * **G/L entry compatibility**
 - * **proximity**
 - * **manual payments**
 - * **due date sensitivity**
 - ⇒ **Ratepayers benefit from allocation of fixed costs**

CONCLUSION

- **Commission should grant CBT's petition**
 - ⇒ **expand the exception regarding services provided solely to affiliates to include the regulated company and its parent company**